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# China Report

ECONOMIC AFFAIRS

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24 October 1983

# CHINA REPORT

## ECONOMIC AFFAIRS

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## ECONOMIC MANAGEMENT

### HEBEI'S INADEQUATE FINANCIAL RESOURCES IN NEED OF IMPROVEMENT

Shijiazhuang HEBEI RIBAO in Chinese 5 Jul 83 p 2

[Article by Zhang Zengshan [1728 1073 1472] and Gao Qiang [7559 1730]: "Some Important Ways of Solving Hebei's Problem of Inadequate Financial Resources"]

[Text] In his report on government work to the Sixth National People's Congress, Premier Zhao Ziyang pointed out that state revenue has declined in the past few years. An important reason for this is poor economic results. The costs of industrial production, communications, and transportation and circulating costs in commerce have not gone down.

This is also the reason for Hebei's inadequate financial resources. Many enterprises' economic and technological norms not only cannot match China's advanced levels but are also far from matching Hebei's own historically highest level. According to Hebei's local budgets, state-run industrial enterprises paid 37.61 yuan in taxes and profits per 100 yuan of funds in 1965 but only 14.25 yuan in 1982, a decline of 53.4 percent [sic], while state-run commercial enterprises realized a profit of 2.44 yuan per 100 yuan of sales in 1982, down by 1.9 yuan from 1979. If the capital accumulation rate of Hebei's industrial enterprises were to regain its 1965 level, and if its commercial enterprises' sales-to-profit ratio were to regain its 1979 level, the province could increase its revenue by over 2 billion yuan. Although we have here various elements--policies, price adjustments, changes in economic structure--that cannot be compared, only by fully developing their potential and working hard to improve economic results can Hebei's industrial and commercial enterprises realize a high rate of increase in their taxes and profits. Therefore, we must energetically improve economic results in order to solve the problem of Hebei's inadequate financial resources.

For nearly 2 years now, the party Central Committee has proposed that all economic work be moved onto the track centered around the improvement of economic results. Although Hebei has already achieved certain results in this area, it has still fallen far short of expectations. An important reason for this is that some comrades, especially some leading comrades, lack correct understanding of the importance and necessity of improving economic results. They have not fundamentally reversed their inclination to stress output value at the expense of economic results and production at the expense of management. Therefore, we must first of all turn their thinking around. All

comrades, especially those at every level of leadership, must observe things from the strategic heights of the realization of the four modernizations: They must understand the importance and necessity of stressing economic results; they must firmly establish the concept of improving economic results. They absolutely cannot only address input without addressing output. If they just demand investment from the state, they make no contribution to China.

The proper adjustment of enterprises is an important part of improving economic results. From 1979 to 1982, Hebei's 10 prefectural budgets contained an average increase of 4.57 yuan per 100 yuan of taxes and profits realized from the output value of industrial and commercial enterprises. The amount of such taxes and profits increased by more than 122 million yuan, an increase of 53.7 percent overall or an average annual increase of 15.2 percent. On the other hand, its nine city budgets not only contained no such increase but actually showed a decline of 2.42 yuan. In the provincial budget, there was an average decline of 4.58 yuan per 100 yuan of taxes and profits realized from the output value of all departments except the Bureau of Metallurgy. An important reason for this big disparity lies in the firmness of the drive for adjustment and in the competence of the execution of the regulations for closing, suspending, merging or retooling enterprises. In the past few years, industry adjustment work on the local and county levels has been stressed rather seriously, and a group of enterprises has actually been closed, suspended, merged, or retooled after having had high levels of waste and big deficits. According to statistics from the end of 1982, 138 such enterprises in the 10 prefectures were closed or suspended. Only 34 of them were small ironworks, small nitrogenous fertilizer plants, or small phosphate fertilizer plants saddled with deficits over a long period of time. After the reorganization of their enterprises and the strengthening of their management, these three industries went from 73 million yuan in losses in 1979 to a profit of 32 million yuan in 1982. This represents an increase of 105 million yuan in income. But in terms of the entire province, the drive for adjustment is still insufficient. By 1982 there still were 568 enterprises in the red, with aggregate losses amounting to 160 million yuan. Of them, 71 were big firms with annual losses of 500,000 yuan or more. Their combined losses of 95.52 million yuan accounted for 59.7 percent of the aggregate losses. Of the big firms in the red, 55 were enterprises belonging to the province or to cities, with losses of more than 77 million yuan. It is obvious that the currently deficit-ridden enterprises are mainly at the provincial and city levels. The burden of these losses weighs on Hebei in a manner similar to running a race while carrying a heavy load. Although we subjectively want to run fast, we cannot cast off our burden, it is difficult to march with our light packs, and it is idle talk to speak of improving economic results. We should earnestly summarize our experiences and lessons and resolve to close or suspend such enterprises and to adjust them. As for big firms losing more than 500,000 yuan per year, we should analyze them one by one, draw up plans for them, and set time limits for the elimination of their deficits. As for those that cannot make up their deficits, we must resolutely adopt measures to close, suspend, merge or retool them.

That management produces economic results is a truth repeatedly proved in practice. Economic results are high wherever management and administration

are emphasized. Otherwise, they are low. The demand for strengthening management and administration is now quite clear. There are many good experiences everywhere, but the key is how to carry this out earnestly. Many enterprises have been chaotically managed for a long time; their organizational discipline has been slack; and many serious problems of losses and waste have been neither investigated nor dealt with. Therefore, the strengthening of management and administration must emphasize laws and regulations. The state is now paying close attention to formulating laws of accounting, costs and so on. Before the promulgation of these laws, every place must take its own conditions into account and then formulate some system or regulations for strengthening management and administration. Well-run firms must receive encouragement. As for those with losses and waste caused by poor management and administration, we must punish them by reducing their share of retained profits, by not adjusting their workers' and staff members' wages, and by closing, suspending, merging or retooling them. Plant managers unwilling to take responsibility for this will be removed if necessary; there can be absolutely no intercession. In the evaluation of economic and technical titles, the enterprise's actual level of management must serve as an important criterion--leading cadres and managers to poorly run enterprises cannot confer such titles.

The improvement of economic results must also depend on technological progress. This is an important guiding idea behind the four modernizations. But this important guiding idea is still not widely understood by people. Most of Hebei's enterprises have a low technological level, old equipment, old materials, old techniques and old products. In particular, Hebei's state-run enterprises in light industry, chemicals, and textiles that turn over more than 60 percent of their taxes and profits to higher authorities have backward technology and equipment, low product quality, weak competitive ability, and low economic results. In order to reverse this situation, responsible departments at all levels have already done much work, and some have obtained good results. The city of Zhangjiakou took a cigarette factory that was having a major effect on its revenue, amassed its financial resources, supported the factory's technological transformation and quickly changed its management picture. In the past 3 years, its output value has risen 20.3 percent. In 1982, its total taxes and profits were 74.2 percent higher than in 1979 while its income rose by more than 45 million yuan. To explain Zhangjiakou's experience again, science and technology were the productive forces: improved economic results and increased income were necessarily dependent on technological transformation and technological progress. We must both recognize our present technologically backward situation and look at the possibilities of progressively attaining or surpassing advanced levels through hard work. We must also uphold technological work in an earnest, down-to-earth, and step-by-step manner. We should now make current conditions our foundation and make competitive powerhouses like Beijing, Tianjin, Shanghai, Zhejiang, Hubei and Hunan our goals to surpass. Proceeding from Hebei's advantages and on the basis of earnestly investigating the needs of China's economic and social development and of studying the trend and level of foreign technological development, let us formulate for Hebei a program of technological progress centered around the development of new products. Let us also emphasize concerted and completely the trial-manufacture of new products, the tackling of key

technological problems, technological transformation and imports of technology. There must be development of new products and a program for their improvement, on the one hand, and a program to restrict and eliminate bad products through selection or competition, on the other. Thereby we can sift through businesses and products, choose a group with a future for development and with competitive ability, and concentrate our resources to give them vigorous support. Then, by working hard over a not too long period of time, we will make Hubei's product variety, quality and competitive ability change and progress rather greatly.

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CSO: 4006/727



## ECONOMIC MANAGEMENT

### JINGJI GUANLI DESCRIBES USING PROFIT INDEX

HK120852 Beijing JINGJI GUANLI in Chinese No 9, 5 Sep 83 pp 18-20

[Article by Luo Jingfen [5012 4737 1164]: "We Should Utilize the Profit Index Extensively and Rationally"]

[Text] It is a requirement for the development of the socialist cause that socialist state-run enterprises work hard and deliver profits to the state. At present various reasons have led to a situation where the extent of an enterprise's profits cannot truly reflect the state of the enterprise's management standards and economic results, and thus several unsatisfactory situations have arisen which have given rise to the question of whether or not it would be possible to come to grips with the profit index in economic work.

Naturally there are many indexes which can be used in the organization and management of enterprise economic activities and for the assessment and appraisal of enterprises' economic results. For example, as far as industrial enterprises are concerned, various indexes are available such as total production value, marketing and sales production value, net production value, product quantity, quality and variety, the proportion of new and superior products, total value of fixed assets, utilization ratio of equipment, the depletion of circulating funds, the turnover rate of circulating funds, consumption of raw materials and fuel, the rate of reduction in production costs, production cost figures, of workers, total wages, labor productivity, real profits, profits paid to the state, contract completion rate, and so on. All of these are important indexes and each one reflects a certain aspect of economic work. They all have a special role. In general, the more indexes used, the more expansive the reflection of the general state of the enterprise. However, the real problem is that when there are many indexes, it is difficult for the relevant state departments to ensure that the indexes that these enterprises should attain are in fact in line with reality and it is also difficult to ensure rational organization and dovetailing which will help the rational development and utilization of social resources and which will also help improve economic results, while fully satisfying the frequently changing needs of different sectors of society and different consumers. When the relevant state departments stress the importance of indexes in one particular area, the enterprises often temporarily sacrifice the requirements for indexes in some other area in order to live up to the expectations of the relevant state department. Thus in many cases what often happens is that quantity is tackled and at the

same time quality and results suffer. It was originally thought that many indexes should be used to supervise and urge enterprises to complete all state plans but in actual fact this aim was never achieved and social economic results never reached expectations.

At the moment people are wondering whether or not there might be a key index which enterprises could tackle, in other words, the "nose of the ox" which would in effect lead enterprises in general in terms of production, technology, sales and marketing, services and other links in the chain and thus promote the completion of every economic and technological index in each enterprise. Comrade Sun Yefang suggested that the profit index should act as the "nose of the ox" within socialist economic planning world. This illustrates real knowledge and true depth of judgment.

It should be admitted that in a socialist society the aim of developing production is not to achieve profits, but rather to increase material wealth and satisfy social demand. However, tackling the profit index will allow us to get enterprises to effectively utilize social resources and work hard to improve product variety and quality, raise management efficiency and concentrate on social needs. This hard work may be coordinated together with social and economic results.

There is a popular belief at the moment which holds that the use of an enterprise's profits to evaluate and judge the state of economic results in the same enterprise can never be realistic, no matter how it is done. This is because in order to come to grips with profits some enterprises may try to shake off state plans and damage social economic results. This phenomenon is often referred to as "large profits mean a great deal of work while no profits means no work." The belief is that it is the enterprise's selfish departmentalism and lack of common interests with other bodies that causes the problem. However, reorganizing enterprise leadership groups and introducing a batch of broad-minded comrades would still not completely alter the situation. This clearly illustrates how one should not seek the cause of objectively economic phenomena and economic problems in pure politics and ideology, rather one should seek the causes and answers from within economics. The root cause of this kind of phenomenon does not lie with the enterprise, but as more to do with the fact that we have not made an active and lively use of economic measures and economic levers to encourage or limit production development, and ensure that it is in line with the developmental aims of state plans. Economic plans and measures are essentially drawn up by the state in a socialist society and normally they should be used to serve the planned economy.

The reports of the 12th National Congress and the Sixth Plenary Session of the national people's congress both pointed out that both command and guidance planning should respect the law of value and make use of economic levers. Accurate use of the law of value and economic levers does in essence mean starting out from the overall interests of the state and the people as well as long-term interests and, according to the size of the contribution that the enterprise has made to society, ensuring that the enterprise gets back for itself a certain proportion of its profits, after all necessary social "deductions" have been made. The proportion of taxes retained by the enterprise should rationally embody the tripartite relations between the state, the

enterprise, and the individual, while also being able to guarantee the needs of the state's key construction projects and general expenditures and, in addition, being able, as much as possible, to satisfy the least of the enterprise's needs in terms of expenditures on regular production and management as well as workers wages, bonuses and general welfare. Here, then, there is a contradiction and it is a complex question which must, however, be suitably solved. In the past the economic measures and levers used to encourage enterprises to complete state plans were often very ineffective in their application and economic activities which were not suited to the state plans could not be effectively controlled and enterprises tended to feel that completing state plans was often not very beneficial to them and as a result state plans lost the guiding role that they should have had. This presents us with a task, namely to utilize the profit index within the socialist planned economy in an extensive and rational way so that the enterprises, while concerning themselves with their own material interests, will also concern themselves with the need to complete state plans and satisfy the needs of society and the people even more effectively. One enterprise is only able to make more profits than another if the labor consumed in the production of its products is lower than the necessary social quantity of labor and if it is able to satisfy social needs to the greatest extent possible. On this basis and starting with the developmental aims of state planning, economic, administrative and legal means can be used to ensure that profits for products in short supply and in great demand in society are slightly higher than the social average profits and that the profits of those products in ample supply for which production should be limited or reduced are variously lower than the social average profits. In addition, backward products which should be phased out should not only not make a profit, they should even create losses. In other words, those things for which society requires hard work should produce large profits while those things which are not needed and thus require little work should produce little profits, while those things not needed at all should produce no profit.

In view of this, we can see that the enterprises' saying "large profits means a great deal of work, small profits mean little work, no profits means no work" has been coordinated with the demands of state planning, and not only will this produce no losses for society, it will, on the contrary, alter the present situation in which products in short supply cannot be produced in sufficient quantity and products in abundant supply cannot be curbed. In addition this situation will help break down regional and departmental splits and blockades and smash the system of self-sufficiency and self-protection. It will promote development of the application and specialization of the division of labor and coordination. By getting the enterprises to work hard to improve their own microeconomic results, macroeconomic results will also improve.

Of course, if we do make profits the "nose of the ox" the very first question is to work hard to establish suitable conditions. If conditions are not right and things are done in a disorganized way, then we will achieve the opposite of our desired results and the economy will be flung into disarray. The following things should be done:

1. Both the price system and taxation system should be changed. Product prices should be set according to the principle of average production costs in

addition to fund profits, and prices should be set in line with production costs while also taking into account the changes in supply and demand relations on the market, so that prices have a certain amount of flexibility. In China there is a very serious dislocation between the prices of products and their actual value and this must be changed quickly. At the same time we must alter the former tendency to stress the [words indistinct] to ignore the flexibility of prices. Today many prices only have one unified price and they lack any rational price differences reflecting different qualities, seasons, or regions. There are virtually no price differences for batch products, nor are there price differences depending on delivery dates. This has created many contradictions and problems between industry and commerce and the result has been that some of the revenue of price differences has gone into the pockets of various individual customers.

In order to achieve profit equality we must also change the taxation system and implement a composite taxation system. Certain taxes should be imposed on the various differential gains of enterprises located in favorable natural conditions, the additional gains that enterprises have as a result of a transfer from other enterprises through state policies as well as a proportion of the surplus labor provided for society by the worker of an enterprise. These taxes should be in the form of a natural resources tax, ground tax, product tax, adjustment tax, income tax and so on and all of these taxes should go to the state. Later, on the basis of the requirements of the developmental aims of state planning, certain departments and products which require encouragement to develop can be given such encouragement so that the enterprises involved may make relatively high profits, while those departments and products which the state wants to restrict in development can also be successfully handled so that the enterprises involved make less profits. This will ensure that there is a certain differential in the profit ratio. In this way enterprises will no longer have to rely on producing products which produce high gains but which are not required by society, in order to increase their profits. Instead, in order to increase their profits, they will only be able to produce those products required by society or to improve management and reduce funds depletion and production costs.

2. Establish a funds payment system. Investments made during the production process not only include the consumption of labor involved in creating the product, they should also include the necessary investments required to create suitable conditions for the production of the products. The reason for this is that if only the former kinds of investments are counted, then in actual fact one has only counted a very small part of the enterprise's funds, namely the depreciation of the enterprise's fixed assets and the direct consumption in production of raw materials and energy. What has not been included is the enterprise's total amount of fixed assets and circulating funds. This is not good for enterprise accounting. Since those enterprises which have more funds are not required to carry a greater economic responsibility, grassroots work units often find themselves struggling for investments and goods and materials when in the production planning stage. For many years we have not placed enough emphasis on seeking ways of reducing the latter of the two kinds of investments and this has been one of the main reasons for the constant inflation in investments in capital construction and the extreme increases in the

quantity of circulating funds. In order to improve the planned management of fixed assets and circulating funds and effectively control investments in this area, while putting a stop to various activities in enterprises which waste state funds merely in order to increase enterprise funds, we should actively promote a system of repayable utilization of fixed assets and credit provision for all circulating funds. What is more, this payment should not be calculated within product production costs, but should be paid out of the profits retained by the enterprises. Thus those enterprises which have more funds will receive less profits.

3. We should work hard to create a healthy market environment in terms of supply and demand. We should strictly curb social payment power so that the needs of production construction are slightly lower than the total potential provision of the means of production and so that the people's living requirements are slightly lower than the total potential provision of consumer products. This is the best way to avoid problems of supply and demand and price inflation. When there are problems with supply and demand, production enterprises have a dominant and controlling position on the market and there is always the change that some enterprises, instead of improving management, will want to gain extra profits by driving up the prices of products, lowering the quality and even speculating, and profiteering, and practicing fraud, all of which are harmful to consumers. At present many enterprises are expanding their own sales of products in short supply and are using only negotiated prices, and they are taking advantage of the fact that there are insufficient supplies to meet demand in order to make some extra profits.

4. We should implement a free buying and selling system within certain limits, and at the same time adopt various economic measures to ensure that commercial enterprises are willing to do more business and expand their market. In this situation, if the products which industrial enterprises produce can be purchased by commercial enterprises, then in general these products correspond to social demand and are viable.

CSO: 4006/026

## FINANCE AND BANKING

### PRC BANKING SYSTEM DESCRIBED

OW281438 Beijing XINHUA in English 1333 GMT 28 Sep 83

["Backgrounder: China's Banking System"--XINHUA headline]

[Text] Beijing, September 28 (XINHUA)--China has a major step to reform its banking system by making the People's Bank of China the sole central bank and has set up an industrial and commercial bank. Following is a brief introduction of China's banking system:

China's banking system consists of the People's Bank of China, the Industrial and Commercial Bank of China, the Agricultural Bank of China, the Bank of China, the People's Construction Bank of China, the Investment Bank of China and other monetary institutions.

The People's Bank of China functions as the central bank and operates under the direct control of the State Council. It formulates monetary policies and decrees, issues bank notes and control currency circulation, buys and sells all gold and silver, supervises foreign exchange reserves and administers credit funds, and carries out international monetary operations on behalf of the government. It will set up a central bank council and to guide all other banks and monetary organizations in the country.

The Industrial and Commercial Bank mainly administers the circulating funds of enterprises and funds earmarked for technical transformation of enterprises, handles settlement of accounts and personal savings deposits.

The People's Construction Bank of China is a specialized state bank handling investment in capital construction. Founded in 1954, it controls expenditures in the budget for capital construction and other financial affairs involved in construction. In August 1979, the State Council decided to change the form of capital investment from state appropriations to bank loans. The bank is charged with the additional responsibility of issuing bank loans for capital construction. It has its head office in Beijing and branch offices in all provinces, prefectures and counties. Sub-offices are also set up in places where major state construction projects are being built.

The Agricultural Bank of China is a specialized bank to extend agricultural credits and administer state appropriations for agriculture. Under the bank

is a vast network of rural credit cooperatives: each operating independently as a collective monetary organization at the grass root level.

The bank has its head office in Beijing and branch offices or agencies in all provinces, prefectures and counties and sub-offices below the county level. The number of credit cooperatives comes to 60,000.

By the end of 1982, the Agricultural Bank and credit cooperatives issued 39.3 billion yuan in credits, mainly for developing agriculture and stock-breeding and rural energy resources. At the end of 1982, the amount of bank savings and deposits reached 60.5 billion yuan, including 28.1 billion yuan of personal savings of peasants.

The Bank of China is a state agency specialized in handling international banking, foreign exchange transactions and settlement of international accounts, promoting foreign exchange deposits. It administers foreign trade remittances, overseas Chinese and other non-commercial remittances, and provides investment and trust services.

It has its head office in Beijing and 181 agencies in the country and 240 branch offices in London, New York, Singapore and Luxembourg and representative offices in Tokyo and Paris. It maintains correspondent banking relations with 3,000 banks in more than 150 countries and regions.

It is now raising foreign capital and importing advanced technology and equipment through all available channels to serve the national key construction projects and technical transformation of medium-sized and small enterprises.

The Investment Bank of China is a specialized bank designated by the state to raise foreign capital for national construction and handle investment credits. It was founded in December 1981.

The bank accepts loans from international monetary organizations and solicits funds through other channels and provides loans to Chinese enterprises in foreign exchange or renminbi.

The bank has a registered capitalization of over four billion yuan. Its head office is in Beijing. Plans are under way to set up branch offices and agencies in other parts of China and in foreign countries.

CSO: 4020/011

## FINANCE & BANKING

### REFORM CONTROL SYSTEM FOR CIRCULATING FUNDS

Shanghai SHIJIE JINGJI DAOBAO in Chinese 11 Jul 83 p 12

[Article by Chen Zehao [7115 3419 3185]: "The Control System for Circulating Funds Must Be Reformed"]

[Text] Conserving the use of circulating funds is a key measure that improves economic results and solves the current insufficiency of funds for construction. Although the controls on industrial and commercial enterprises' circulating funds have been strengthened in the past few years, there has been no clear improvement of such conditions as excessive use of circulating funds, slow turnover and inferior economic results. By the end of 1982, China's state-run enterprises had increased their use of circulating funds to more than 380 billion yuan. Even 2 percent of that is in the 700-800 million-yuan range.

The slow turnover of circulating funds must be changed. In addition to reforms in planning, the system of handling goods and materials, enterprise management and administration, and other areas, the control system for circulating funds needs drastic reform:

1. After taxes have replaced profits, enterprises that need increased circulating funds because of expanded production and administration should supplement their circulating funds at a fixed ratio from profit retained after enterprise taxes. If more funds are needed, banks may verify the loans. In this way there will arise a direct connection between how well an enterprise is run and its funds. Well-run enterprises will retain more of their own funds, correspondingly reduce their bank loans and lighten their interest burden. Otherwise, that burden will increase.

2. Loans should be granted according to market fund rates and should be combined with the authorized management of enterprise funds.

3. Let interest on loans for circulating funds be paid from profits retained after enterprise taxes, not from funds originally earmarked for production costs, as is done now. Or else use the method of "floating interest rates" and link up interest payments with the profits of enterprises, workers and staff members. An enterprise will be responsible either way: savings on interest as a result of accelerated circulating fund turnover will accrue



to an enterprise's income, whence greater interest payments will come in case of slow turnover.

4. Enterprises should handle losses of materials because of overstocking by cutting into their profits of that year. They should handle losses arising from sheer blind production and management by cutting into their own funds or their production and development funds. In the case of circulating fund losses exceeding both allocated funds and enterprises' own funds, banks have the authority to stop new loans to the enterprises in question and to freeze their deposits.

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CSO: 4006/727

## INDUSTRY

### BRIEFS

SHANDONG MOTOR VEHICLE PRODUCTION--Shandong Province has made great progress in developing automobile industry. The province has increased its automobile enterprises from the 3 small automobile assembling and repair plants in 1950's to 18 enterprises at present in charge of manufacturing and assembling motor vehicles. At present, the province has the annual production capacity of 6,000 heavy-duty trucks, 2,200 mid-sized motor vehicles, more than 6,000 rebuilt motor vehicles, and of 12,000 motor vehicle engines. Its annual output value reached more than 400 million yuan and its profits and taxes handed over to the state reached more than 56 million yuan. [Excerpts]  
[Jinan Shandong Provincial Service in Mandarin 2300 GMT 3 Oct 83 SK]

CSO: 4013/12

## DOMESTIC TRADE

### INCREASE IN CONSUMER GOODS GREET'S NATIONAL DAY

OW291100 Beijing XINHUA in English 0835 GMT 29 Sep 83

[Text] Beijing, September 29 (XINHUA)--Sales volume at Xidan department store, one of the biggest in Beijing, has gone up around 15 percent with the National Day, October 1 just around the corner.

Thousands of customers are inspecting the 2,700 commodities on sale, with especially heavy purchases of suits, woolen sweaters, knitting wool, children's clothes and toys.

The department store has prepared 20 million yuan of goods and organized 11 sales exhibitions for the National Day holidays.

A couple in the store bought one suit for each of their two children. "We want the kids to have a good time," the mother said.

Income for every member of a working family in Beijing in the first eight months was 8.4 percent more than the same period of last year and prices remain stable, according to the Beijing statistics bureau.

Some 13 million kilograms of confectionaries and 4.14 million kilograms of fruit are in the markets, 12 percent and 5 percent more than the same period of last year respectively. 760,000 chickens, ducks and geese and 200,000 kilograms of fish will also be put on sale.

CSO: 4020/011

## DOMESTIC TRADE

### BRIEFS

INDIVIDUAL ECONOMY IN SHANGHAI--Shanghai's municipal administrative departments of industry and trade have been thoroughly putting in order and reorganizing the marketplace. At the same time, they have adopted measures to combine earning a living with management, putting things in order with registration, and suppression with arrangement. Together with other relevant departments, they are comprehensively administering and reorganizing the marketplace. During the past month and before, the departments of industry and trade have noted certain confusing phenomena in the small commodities and agricultural trade markets. Hence they have begun with individual peddlers and are comprehensively reorganizing the markets. Along with public security, taxation and other departments, they have successively suppressed some illegal trade markets and have cracked down on a group of persons engaged in serious fraud, market cornering, and market disruption. At the same time, they have followed the principle of combining suppression with arrangement: they have allowed qualified unlicensed peddlers to go through the formalities of registration, get business permits, and engage in lawful enterprise. Last year, new individual businesses numbered 10,000, and recently (including the first quarter of this year) 8,000 more have started. Shanghai now has more than 34,000, comprising more than 35,000 persons. The municipal district once had 67 markets for agricultural byproducts and 13 for small commodities; now it has 74 for the former and 15 for the latter. [Text] [Shanghai JIEFANG RIBAO in Chinese 18 Jul 83 p 1] 12465

CSO: 4006/727

## FOREIGN TRADE

### TIANJIN MAKES PROGRESS IN USING FOREIGN FUNDS

OW041420 Beijing XINHUA in English 0804 GMT 4 Oct 83

[Text] Tianjin, October 4 (XINHUA)--Tianjin's Vice-Mayor Li Lanqing reports that seven joint ventures and cooperative enterprises set up with Chinese and foreign investment in China's third largest industrial city have achieved satisfactory results.

Tianjin has used [figure indistinct] million U.S. dollars of foreign funds since 1979, including 50 million U.S. dollars of direct investment, the vice-mayor said. The city also established 11 joint ventures or cooperative enterprises in Hong Kong, Japan and the United States.

Productivity of those enterprises has risen and their products are well selling, Li Lanqing said. A winery in Tianjin had imported French low-temperature ferment and brewing technology and facilities. It produced 400,000 bottles of white wine between 1980 and 1982 and entered the markets of Hong Kong, Singapore, Malaysia, Australia, Britain and the United States. The wine was one of the most popular at the 1981 World Wine Fair in France.

Foreign funds have been used to complete technical transformation of 128 projects. The Tianjin Garment Company has raised output by 82 percent and improved quality after technical transformation.

Cooperative production has promoted foreign trade. Tianjin's foreign trade volume in 1982 was 65 percent more than in 1978.

The city has also contracted to build foreign projects and provided labor service abroad, in addition to joint ventures, cooperative production, compensation trade, processing and assembling supplied materials and parts.

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## FOREIGN TRADE

### INTERNATIONAL BUSINESS DISCUSSION MEETING ENDS

OW260925 Beijing XINHUA in English 0818 GMT 26 Sep 83

[Text] Dalian, September 26 (XINHUA)--Dalian City in Liaoning Province signed 53 agreements on economic and technical cooperation with foreign countries and the volume of transaction has come to 17.26 million U.S. dollars at the 11-day international business discussion meeting which closed yesterday.

Five hundred and ten business people from 281 firms in 28 countries and regions participated in the meeting. This was far more than provincial authorities had expected.

The provincial and city governments offered 126 projects for discussion at the meeting. Agreements on 53 of them were concluded. In addition, 59 protocols, letters of intent and memoranda were signed.

City authorities of Dalian said that the city will step up the pace of importing technology and equipment and expand cooperation with foreign firms. He said the city has planned to import 150 major items by using foreign capital to retool 140 existing enterprises in the remaining years of the Sixth Five-Year Plan period (1981-1985). The focus of construction will be on energy, transportation, machine building, electronics, textiles and food processing industries.

CSO: 4020/011

## FOREIGN TRADE

### MORE FLEXIBLE POLICIES TO ABSORB FOREIGN FUNDS

OW271241 Beijing XINHUA in English 1207 GMT 27 Sep 83

[Text] Beijing, September 27 (XINHUA)--China has approved new measures to encourage foreign investment. According to a document issued by the Central Committee of the Chinese Communist Party and the State Council earlier this month, more generous preferential treatment will be given to joint ventures using Chinese and foreign funds on the following items:

-- Taxation. Newly established joint ventures scheduled to operate for a period of ten years or more shall be exempted from income tax in the first two profit-making years. A 50 percent reduction will be allowed in the third, fourth and fifth years. The term for tax exemption will be extended by one year for established joint ventures if the original tax exemption term is not yet due. The term for tax reduction will also be extended by one year if the original tax reduction term is not yet due.

Joint ventures engaged in low-profit operations involving farming and forestry, or which are located in remote, economically underdeveloped outlying areas, may be allowed a 15 to 30 percent reduction for a period of ten years following the expiration of the five-year tax exemption and reduction period. Equipment, machinery, parts and other indispensable materials imported by joint ventures may be exempted from customs duties and industrial and commercial consolidated tax.

Except for those export items restricted by the state, export products produced by joint ventures may be exempted from customs duties and industrial and commercial consolidated tax with the approval of the Ministry of Finance. Joint ventures producing goods for China's domestic market may apply for exemption or reduction of industrial and consolidated tax for a certain period if they have difficulties in meeting tax payments during their initial period of operation.

-- Sale of products in China. Joint ventures adopting advanced technology and manufacturing products that China still needs to import will be able to sell a larger proportion of their products in China.

-- Imports and exports of equipment, materials and products. Projects involving foreign funds, including loans extended by foreign governments

and international financial organizations, will need no additional approval of technology, equipment and materials for production, after the examination and approval authorities have granted approval together with the department in charge.

-- Pricing policy. Prices and charges for raw materials, fuel and power needed by joint ventures for production will be fixed according to the rates for domestic Chinese state-owned enterprises. Precious metals (gold, silver and platinum), petroleum, coal and timber used for production of export goods will be priced according to international market prices. Transport charges will also be levied according to domestic standards, and prices of products sold by joint ventures in China will be set in principle according to domestic rates. Reasonable quality-related price differences will be allowed.

The document says that enterprises whose investment comes exclusively from foreign firms in special economic zones can be set up on a trial basis in some provinces, municipalities and autonomous regions. But they must be subject to joint examination and approval by the State Planning Commission, the State Economic Commission and the Ministry of Foreign Economic Relations and Trade. The document also says that projects involving foreign funds must be geared to China's national economic and social development plans. Domestic funds and materials must be supplied to ensure scheduled operation of joint ventures.

CSO: 4020/011



FOREIGN TRADE

BRIEFS

SHENZHEN INSTRUMENTS EXHIBITION--Shenzhen, 6 Oct (XINUA)--Micro-computers, radar sytems, duplicators, cameras and other instruments and apparatus from six countries and Hong Kong are now on show at an 8-day international exhibition of scientific, teaching and medical instruments which opened here yesterday. The 9,380 exhibits are products of Action Computer Enterprise (Asia), Dai-ichi Shoji Co. Ltd, and 39 other companies from the United States, Britain, Japan, Canada, Switzerland, the Federal Republic of Germany and Hong Kong. American products account for 50 percent of the exhibits. Representatives and scientists from more than 30 state departments and 28 provinces, municipalities and autonomous regions will visit the show to hold technical and business talks. [Text] [OW060921 Beijing XINHUA in English 0717 GMT 6 Oct 83]

CSO: 4020/011

## LABOR AND WAGES

### JINGJI GUANLI ON REFORM OF WAGE SYSTEM

HK140604 Beijing JINGJI GUANLI in Chinese No 9, 5 Sep 83, pp 20-23

[Article by Qiu Yang [6726 2799]: "On the Basic Direction for the Reform of the Wage System of Enterprises"]

[Text] An important task in the reform of the economic system is to break the longstanding practice of "everybody eating from the same big pot" and to provide the enterprises with the necessary material benefits in order to enable them to display their initiative and flexibility in production and operation. Institution of the practice of substituting taxes for delivery of profits has helped in correctly handling the relations of interests among the state, the enterprise and the individual. But merely changing the state of "everybody eating from the same big pot" is still not sufficient. Rather, it is necessary to break equalitarianism in the distribution of the income of the employees and workers inside an enterprise and to set up a scientific and equitable wage system. We present below our views in this connection:

#### I. The Existing Wage System Must be Reformed

Our existing wage system was instituted in 1956 following the pattern of foreign countries. Even originally, it was not perfect. Subsequently, due to the effects of "leftist" erroneous ideas and serious setbacks in economic construction, it has not been possible to set up a normal system embodying features such as promotion and readjustment of wages and, as a result, the wage system has accumulated, and suffered from many drawbacks. Generally speaking, the drawbacks may be named as the following: "First, equalitarianism; second, low wage levels; third, rigidity; and fourth, confusion. The first has reference to the system of equal distribution of wages; the second refers to the salaries and wages being at a low level; the third means that the wage management system is overcentralized and control too rigid; and the fourth refers to confusion in the wage standard or criterion. The enterprises do not have the power to readjust wages. The gross volume of wages of an enterprise is not linked to the operating results and the income of the individual worker is not linked to the level of his contribution. The time lapse for promotion and the extent of promotion follow the unified regulation of the state. The standard or criterion for promotion is based on qualifications and on record and length of service. Since 1977, in order to solve the problem of the low level of wages, the state has four times in succession increased the wages of the staff members and workers, restored the bonus system and added various allowances and fringe benefits. In

addition, employment has been vastly expanded, enabling the great majority of staff members and workers noticeably to improve their standard of living. Nevertheless, because basically the evil of equalitarianism in the existing wage system has never been touched or removed at all, the staff members and workers have not displayed any increase in enthusiasm, despite increases in their income. Moreover, the "wage-profit" ratio of state-run enterprises and enterprises under the collective system of ownership not only did not rise but actually dropped each year. Thus, in 1978, it was 20.65 percent, but dropped to 198.28 percent in 1979, to 191.2 percent in 1980, and to below 185 percent in 1981. Among the problems confronting the existing wage system, equalitarianism offers the major contradiction. It is therefore urgent that, concerning the income of the staff members and workers, we truly rectify the situation of equalitarianism in distribution, and set up a new wage system which closely knits together the income of the staff members and workers with the operating results of the enterprise and the labor contributions of the individual workers.

## II. A Semifixed and Semifloating Wage System Provides a Relatively Good Form for Reform of the Wage System in Enterprises

In recent years, concurrently with implementing the production responsibility system and in accordance with the principle of distribution according to work, many enterprises have tried out, within their respective spheres, different forms of the wage system. They may be summarized as principally comprising the following:

1. Retention of the existing wage system, but addition of bonus payments to the basic wage. This is meant to manifest the principle of "more work, more pay."
2. Expansion of the power of enterprises to utilize their funds. No change is made in the existing wage system, but the enterprise is empowered to utilize the balance of the bonus funds from profit retentions after payment of tax to readjust the wages of a portion of the staff. In general, the method is to practise "floating promotion" inside the plan under the provision that the floating wage will no longer be operative in the event that during the floating period management of the enterprise or performance of the individual employee is found to have been poor. Moreover, the floating wage carries effect only within the plant. Once the employee leaves the plant, he automatically loses this grade of wages.
3. Completely breaking the existing wage system; wages, bonus and various kinds of allowances are all bundled together to make the whole wage structure float (known as the "live wage"). The income of the staff member or worker is completely determined by the result of the labor of the individual. In reality, it is similar to a piece-rate wage.
4. Partially breaking the existing wage system and carrying out a semifixed and semifloating wage system. Concretely speaking, the method is to divide the regular wages of the employees and workers into two parts: one part fixed and the other floating. The fixed portion does not "float" and will not be changed at all, irrespective of whether the operating results of the enterprise are good or bad, or whether the contributions of the staff members and workers are more or less. The floating portion is combined with the various kinds of

allowances and bonus and is directly related to the operating results of the enterprise and the contributions of the employee, moving "upward or downward" as the case may be. Generally, it occupies 20 to 30 percent of the regular or normal wage, and is determined by the enterprise according to the special features of its production and operation after having been discussed at the representatives' congress of the staff members and workers.

Actual practice has shown that in varying degrees the above-mentioned methods intrude upon the current wage system and, while based on a general rise in the wage level, nevertheless inject into the wages a definite degree of disparity. Initially, they denote the role played by wages as a lever in promoting the development of production. However, at the same time, we may note that they are still far from the stage of perfection. For example: the first method basically makes no change at all in the original wage system. A mere reliance on granting of bonuses basically cannot break equalitarianism in wage income. In reality, many enterprises have taken bonus as the "second wage," subject to distribution under equalitarianism. The second method is a slight improvement on the first but its effects are limited to providing the enterprise units with the power of promotion of their staff members and is not related at all to the existing wage system. Moreover, "floating promotion" removes equalitarianism only during the floating period. After the floating period is over, the form of a fixed wage reappears. Hence, this type of reform has a still limited role. As for the third method, although it has no trace of equalitarianism, it can easily go to the other extreme and bring about too great a disparity in the income of the staff members and workers. In particular, under the current conditions that many enterprises are weak in their basic work, that it is not easy to determine a correct fixed wage, and that prices are still generally irrational, the influence of conditions other than that of labor may easily dominate, and bring about a great disparity in treatment between the enterprises and the employees. Likewise, this does not conform with the principle of distribution according to work and at the same time hampers the unity of the staff members and workers. Hence, with the exception of a small minority of industries and trades, in general it cannot be extensively adopted.

In comparison, the fourth method, of a semifixed and semifloating wage system has relatively more superior features. It not only helps in carrying out the principle of distribution according to work and rewarding the diligent but punishing the lazy, and also in overcoming the evils of equalitarianism in the current wage system, but also avoids too great a disparity in the income of the staff members and workers. To a certain extent, it also ensures a necessary degree of stability in the income of the staff members and workers. Hence, we should earnestly sum up and study the experiences gained therefrom and on that basis formulate a relatively perfect system for systematic adoption, under able guidance and in the all-round manner.

### III. How To Determine the Basic Structure of a Semifixed and Semifloating Wage System

Generally speaking, at present, adoption of a semifixed and semifloating wage system is being tried out on the basis of not breaking the original wage system. Hence, not only are there diversified forms in operation, with both the pro-

portion and scope of coverage varying from each other, but also there is no rational and scientific basis or unified criterion to determine which portion of the income of staff members and workers should be fixed and which portion should float. In the following, the writer will present his personal views relating to this problem for your reference:

According to the requirement of the basic economic law under socialism, the composition of the wages of staff members and workers not only should include a portion which ensures the minimum livelihood needs of the individual staff member and worker but also should include a portion which meets normal improvement in his standard of living as well as a portion which encourages the staff member or worker to raise his cultural and technical level and thus to continuously improve and perfect social production. Only in this way is it possible to demonstrate and display the superiority of the socialist system. On this basis, we can generally imagine the contents of the fixed wage in the semifixed and semifloating wage system as follows:

1. Basic living expenses, that is, ensuring the meeting of the individual staff member's or worker's basic livelihood needs. Irrespective of whether or not a staff member or worker has taken part in the current stage of work and irrespective of the size of his labor input, he is entitled to this portion of the wages. In its determination, we should principally consider the following three factors: 1) the minimum level of living expenses during a stated period in the whole country; 2) changes in the price index during the stated period; and 3) disparities between localities. It should include disparities between localities. It should include disparities between the basic living expenses due to differences in commodity prices, geographical location, and natural conditions of different localities.

2. Seniority wage, or wage based on length of service. It is necessary appropriately to increase the wages of staff members and workers in order to solve the problem of the increasing family burden of middle-aged employees and workers and also to ensure the elderly employees and workers do not lower their standard of living on account of their weakened physique. In its determination, we should insist on the following two points: first, the maximum length of service for increases in seniority wage or wage based on length of service. For example, the maximum may be fixed at 30 years, in order to enable the staff members and workers to retire at a fixed age and to prevent the ageing of the ranks of staff members and workers; and second, counting of the length of service should be on a continuity basis in the same enterprise unit. With the exception of transfers according to regular procedure, prescribed by leadership organs for reasons of work requirements, once an employee leaves his post his wage based on length of service in the enterprise unit should be annulled, in order to make the employee concerned take the unit as his home and feel at ease about staying at his post.

3. Wage based on cultural and technological level. This principally embodies two factories: one is a definite academic standard acquired by the employee through training in regular institutions of learning or through self-study and after passing the necessary qualification examinations. In such cases, the employees should be accorded a corresponding grade of wages. The other factor

is determined by the employee's level of technical performance. Those who have achieved high grades in periodic tests should be correspondingly upgraded in their salaries or wages and receive higher pay. Conversely, the grading of wages should be lowered followed by a reduction in pay so as to make the employees consciously seek advancement and continuously improve their work performance.

The above-mentioned portion of the fixed wage concerns only one phase of the distribution to the employees and workers. Since the primary nucleus of the socialist principle of distribution is "distribution according to work," the wages of individual workers must be related to the results of the labor they have contributed, so that those who have made larger contributions will have great income while those who have made lesser contributions will receive less income, in the 2-6 truly making wages play the important role of rewarding the diligent and punishing the lazy. Based on this thought, we may formulate the composition of the portion of floating wage as follows:

1. Overtime or excess work allowance. That is to say, if staff members and workers, after having completed their work quota (including work time or actual volume of work done), have performed additional work, they should be entitled to compensation for this excess portion of work rendered. In determination, the key lies in rationally fixing the work quota. If it is fixed too high, the staff members or workers will be unable to get remuneration for excess work and it will be difficult to arouse their enthusiasm. But if the quota is fixed too low, then there is only motive power but no force of compulsion. This cannot perform the role of encouraging the advanced and punishing the regressive people.

2. Post allowance or functional allowance. Post allowance refers to paying the necessary compensation to staff members or workers engaging in certain trades or industries requiring dangerous or extremely heavy work. Functional allowance refers to the necessary labor and responsibility compensation payable to cadres at various levels of enterprises for performance of their duties. Following changes made in the posts and functions of the staff members and workers, these two portions of compensation should correspondingly be changed or abolished.

3. Bonus and labor "dividends." The kind of bonus referred to here is different from the so-called "bonus" which enterprises have currently been paying out to each and every employee every month on an egalitarian basis. It represents a unitary form of bonus or award to staff members and workers who have made [word indistinct] in the form of invention or creation or rationalized recommendation, or who have achieved outstanding results in practicing economy. Labor "dividends" are of an occasional or "once only" character. The dividends received by the staff members and workers not only should be linked to the size of their individual contributions, but also should be closely related to the operating results of the enterprise. By the time of closing of accounts at the end of a year, the better the production and operating results of the enterprise and the greater the contribution made by each employee the more dividends he will receive. On the other hand, the dividends may be exceedingly small and may not be any larger than those in past years. Since this income from special

contributions and income from yearend dividends are not procurable regularly by each and every staff member or worker, they are necessarily of a floating nature.

As for the proportion separately occupied by fixed-wage and floating-wage in the wage structure, they should be determined according to the concrete situation of the different trades and industries. From the experiences gained by the trail-piont units over the past few years, the floating portion should not be less than 30 percent but not more than 40 percent. This is because if the floating portion occupies too small a ratio, then we cannot overcome egalitarianism in the wage system, but if the ratio is too large, then it is not possible to maintain a relative stability in the standard of living of the staff members and workers.

The purpose of enforcing this type of wage structure and wage system is to ensure, on the basis of stability of the income of the staff members and workers, a better display of the role of wages as an economic lever. In this type of wage structure, although the proportion of fixed wage occupies the greater end, yet of the six component parts, the great majority are by no means unconditionally fixed. With the exception of the basic living expenses of the individual staff member or worker, the remaining five constituent portions all manifest necessary disparities. For example, if the staff members and workers wish to increase their income or improve their standard of living, they must diligently, earnestly, and contentedly attach themselves to production and work in their unit and thus maintain or increase their allowance based on length of service; they must raise their own standard of culture and technology, and only then can they obtain an increase in their wages based on cultural and technical level; they must overfulfill their assigned tasks, and only then can they increase their allowance for overtime or excess work; they must be brave in working under arduous conditions and able to perform their functions at leadership posts faithfully and responsibly, and only then can they increase or maintain their post and functional allowance; and, lastly, they must strive hard to make special contributions and do the utmost to increase the economic benefits of the entire enterprise before they can increase their bonus and yearend labor dividends.

#### IV. Equilibrium Between Semifixed and Semifloating Wages and Macroeconomy

Our country is a socialist country. The gross volume of wages and increases thereof must be incorporated into the unified plan of the state. After enforcing the semifixed and semifloating wage system, a rather great portion of the power of control over wages will be in the hands of the enterprises. Making it possible to effect an equilibrium and balance between increases in the wages of staff members and workers of enterprises and the macroeconomy as a whole and thus avoid wage increases getting out of control constitutes an exceedingly important problem. For this reason, some people have advocated the continued use of the gross volume of wages already fixed by the state and also the method of controlling the floating portion by fixing a hard ceiling. Several years of experience have revealed to us that this is not a good measure and that in reality it fails to achieve the control objective. Hence, as a measure of control, we recommend the collection of a progressive tax. This is to say, concerning the enterprises, the state can, on the basis of their production

and operation tasks, fix a maximum limit for the increase in their gross volume of wages. Any excess over the limit will be subjected to the levy of a progressive wage regulation tax at a rate of several hundred percent of the excess portion, to be paid out of the self-owned funds of the enterprise. On the one hand, this method will avoid taking away the autonomous power of the enterprises which have performed well in operation can afford payment of the tax and actually enjoy the advantage of enhancing their income. On the other hand, the amount and proportion of the state's accumulations will not be affected and the more the enterprises receive, the more will be the state's accumulations. At the same time, adoption of this method can effectively rectify irrational disparities in the income of the staff members and workers among the enterprises.

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